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U.S. DEPARTMENT OF AGRICULTURE



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FEDERAL CROP INSURANCE CORPORATION //

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**CROP
INSURANCE...**

*the
answer
to a
BIG*

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The Answer to a Big IF!

All-Risk Crop Insurance is offered as an answer to the question every farmer owes it to himself, his family, and his business to ask:

Where will the money come from IF . . .

. . . *if there is no crop this year*, erasing all of your hours of labor and dollars of investment. Or where will the money come from if your crop is damaged and unable to return even the costs of production?

The "if" is much too real. This year, as every year, millions of acres of crops will be slowly destroyed by too little moisture . . . and millions more by the sudden destruction of too *much* moisture. And by insects, and disease, and hail, and wind.

The *unanswered* question is *whose* crops? Yours? And, if so, where will the money come from?

Federal Crop Insurance guarantees you that natural disasters will never rob you of the money you have invested in your crops.

As a Crop Insurance policyholder, you will be "pooling" your unavoidable risks with similar risks faced by thousands of other farmers. Then—and only then—can you borrow, and spend, and plan for the future, *knowing* that your investment is protected.

There's more than just the comfort of security. *Low-cost investment insurance is financial common sense for any business-minded farmer who's moving ahead and can't afford setbacks.*

Why should *you* have Federal Crop Insurance? How does it work? What does it cost? When does it pay? Here are straight-to-the-point answers to these and other questions.

Q

Why Is Farming Riskier?

A

Because as expenses keep on increasing and profit margins decrease, more and more dollars are risked on every acre. The same disaster that ten years ago might have destroyed an investment of \$1,000 or so can now wipe out an investment several times that large.

You used to figure as a rule of thumb that one good year could about balance a poor year. But not so any more. At profit margins of only about 20%, it now takes profits from *four or five* good years to make up for one total loss.

There's another reason farming is riskier: Expensive, specialized machinery that increasingly dictates specialized farming operations. Diversification can no longer be relied on as a hedge against risk.

Finally, there's today's pressure to plow all available savings back into your business—lessening the likelihood that you'll have spare cash around when needed to replace a lost investment.

Q

Can Good Farmers Avoid Risk?

A

Good farming practices (a requirement in order to obtain Crop Insurance) can certainly help to reduce the impact of a few types of risk. But it's foolish to think serious natural disasters make any distinction between good farmers and so-so farmers. Drought and excess moisture, two examples of unavoidable risks, account for more than one-half of all crop losses.

Actually, good farmers are likely to lose the most from disasters; they have more *to* lose.

Q

What's the Purpose of Crop Insurance?

A

To safeguard your working capital—money that must always be available, from one year to the next, if you are to produce a crop.

The loss of a farmer's working capital can be a personal catastrophe. To remain in business, *it must be replaced*.

If replaced from savings, then cash earmarked for a tractor, a college education, or more land, must be sacrificed.

Or if borrowed money can be obtained to replace lost working capital (that itself may have been borrowed), the principal and interest repayments will be a drain on family income for years to come.

Crop Insurance is a better way to replace lost capital, simply by

substituting a small, regular premium payment for the uncertainty of risk. And insurance has this added advantage: It's *full-time* protection. That is, even if savings or borrowed funds could replace a serious crop loss, what about two or three or four such losses. Only insurance provides this kind of protection.

Q Should A Livestock Farmer Carry Crop Insurance?

A If he grows his own feed crops, it's smart financial management to protect them with insurance.

Look at it this way: If his feed crop is damaged or destroyed, not only is the investment in it lost, but the feed must then be replaced at the going market price. In effect, he must pay for his feed twice! With insurance, he is guaranteed a feed crop or the money to help replace it.

Q How Does Federal Crop Insurance Work?

A As an FCIC policyholder, you will be guaranteed a specific quantity and quality of production from your insured acreage. If for any unavoidable reason your crop falls short of this guarantee, your insurance makes up the difference in cash.

The guarantee for most crops is a certain number of bushels or pounds per acre. For tobacco and

peanuts, the guarantee is in dollars per acre. Ask your FCIC representative the exact production guarantee for your farm.

Note that insurance protects against low quality as well as low yield. Depending on the extent of quality damage, you may be entitled to an indemnity even though your *yield* is above the minimum guaranteed.

Q *What, Exactly, Does FCIC Protect?*

A It protects your approximate investment in production expenses. This investment is protected against *all* unavoidable causes of loss.

Most crop losses, of course, result from such commonplace causes as too much or too little moisture, cold weather, insects, plant diseases, hail, and the like. But Federal Crop Insurance indemnities have also been paid for losses due to more than one hundred *other* causes.

In fact, the only cause that doesn't qualify is poor farming practices.

Q *When Does It Pay?*

A Anytime your yield of insurance-protected crops is less than the minimum guaranteed. *And* anytime low quality reduces the value of the crop below the guarantee.

The amount of indemnity payment you collect following a loss

depends, first, on the extent of damage. Second, it depends on the amount of insurance protection you have chosen to carry (more about this in the next paragraph).

Q

What Does Crop Insurance Cost?

A

That's partly up to you. Although a basic rate is established for your area to reflect the local risk experience, the premium *you* pay can be tailored to fit your budget and your need for insurance protection.

Let's say that you need to protect, for example, three-fourths of the money invested in production expenses, you would select the amount of insurance accordingly. The cost would be based on this.

As a policyholder, if you have a low record of losses, you will qualify for a discount. For three years without a loss, the discount is 5%, and for each additional year, there's an additional 5% discount, up to a maximum discount of 25% after seven years.

Finally, of course, Crop Insurance is a tax-deductible business expense—further reducing its net cost.

Q

How Much Crop Insurance Should You Carry?

A

Speaking frankly, that depends on how much—if any—of your crop investment you can afford to lose. Most farmers protect their entire investment, figuring that they can make *better* investments if they

are able to plan years ahead, without worry about year-to-year risks.

Q Why Is The Federal Government Offering Crop Insurance?

A Because no commercial all-risk insurance is available, Congress has directed the Department of Agriculture (since 1937) to provide farmers with financially-sound insurance as a way to protect their steadily rising investments. Through indemnities to policyholders at times of loss, Federal Crop Insurance also adds to the stability of the entire rural economy.

Q Does FCIC Replace The Need For Private Hail Insurance?

A Definitely not. FCIC and hail insurance—which is available from a number of companies—supplement one another. The latter, while giving protection against only a specific risk, provides a high level of dollars and cents coverage against the risk of hail damage. Farmers are well-advised to carry both types of insurance.

Q Who Can Get Federal Crop Insurance?

A Anyone with a financial interest in an insurable crop on insurable land, and who follows good farming practices.

Q What's Meant By Insurable Crop? Insurable Land?

A Insurance is not yet available for all crops in all counties. Your local FCIC representative can tell you which crops you grow are eligible for insurance protection.

Also, there is some land which is not insurable. As every farmer knows, crops planted on land that's inclined to flood or to blow involve an exceptional risk. Insurance would simply be too expensive.

Q *When Is The Sign-Up Deadline For Federal Crop Insurance?*

A It's normally just ahead of planting. Sales may be ended earlier in an area, however, if prospective growing conditions become unfavorable. Just as no life insurance company would write a "death bed" insurance policy, sound crop insurance practice rules out writing a policy where a loss is imminent. To be sure of obtaining protection, the earlier the policy is applied for the better.

Q *Does the Policy Protect Crops On Rented Acres As Well As On Owned?*

A Yes. Protection extends to your share of all insurable crops you produce in the county.

Q *Does The Premium Have To Be Paid In Advance?*

A No. Your insurance application includes a note for the amount of the premium and payment may be delayed until harvesttime, without

interest or penalty. This convenience permits you to pay the premium when cash is most readily available—from the proceeds of the crop or, if there is no crop, from the indemnity.

Q Can A Crop Insurance Policy Be Used To Obtain Credit?

A Yes, and many credit agencies when considering loans are giving recognition to the value of all-risk protection. After all, a lender's best security is the knowledge that you will have an income from which to repay the loan. Crop Insurance provides him—and you—with that security.

If desired, your Crop Insurance policy can be pledged as collateral—often making it possible to obtain a loan on more favorable terms.

Q Must A Crop Insurance Policy Be Renewed Each Year?

A Definitely not. Like any other insurance, your protection remains in force as long as you continue to pay the premiums by the deadline.

This feature provides you with the assurance that as a "policyholder in good standing" your investment will be protected year after year—even in those years when unfavorable conditions may result in sales of insurance being closed to new policyholders in your area.

Q *Can Federal Crop Insurance Be Cancelled?*

A Yes. After the first year, either the policyholder or the Corporation may cancel by giving written notice to the other party by the date specified in the crop endorsement.

But as with any insurance worth carrying, Crop Insurance should become a permanent part of your farm financial program, to be continued as long as there remains a large and risky investment to protect. The fallacy of carrying insurance on a "trial" basis is all too obvious.

Q *What If I Take Out Insurance On A Crop But Then Decide Not To Plant It?*

A With Federal All-Risk Crop Insurance, you do not owe any premium.

Q *Can The Amount Of Coverage And Premium Be Changed From Year to Year?*

A Yes, in several ways. Promptly after planting each year, notify FCIC of your acreage and your share in the crops. You'll pay *only* for the actual amount of insurance you need *that year*.

Also, by a certain deadline each year, you can change the dollars and cents protection rate for your crops. The premium will be adjusted accordingly.

All this adds up to an annual opportunity to readjust your insurance program to your budget and your needs.

Q *Why Do Crop Insurance Premium Rates Vary From Area to Area?*

A So that the premium you pay will be no greater than needed to cover the risks of crop loss *in the area where you farm*. Even within your own county, you undoubtedly know of some areas which are higher risk than others. Premium rates are based on careful evaluation to reflect these differences.

Q *Where Is More Information About Federal Crop Insurance Available?*

A Your local FCIC representative will welcome your request to draw up a personalized insurance program for your consideration. He'll include specific information—dollars and cents figures—showing how an FCIC All-Risk Crop Insurance policy can begin protecting *your* crop investment right now—while there's still time.

Insurance Office Serving Your County Is:

